

Literacy Council of Northern Virginia, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2019 and 2018



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Independent Auditors' Report

To the Board of Directors
Literacy Council of Northern Virginia, Inc.
Falls Church, Virginia

We have audited the accompanying financial statements of Literacy Council of Northern Virginia, Inc. (the Council), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Literacy Council of Northern Virginia, Inc.
 Statements of Financial Position
 June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 63,075	\$ 76,423
Contributions and grants receivable	58,160	210,061
Inventory	17,654	13,383
Prepaid expenses	4,922	4,915
Total current assets	143,811	304,782
Investments	540,424	618,208
Property and equipment, net	16,786	19,054
Total assets	\$ 701,021	\$ 942,044
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 22,938	\$ 8,186
Accrued payroll	42,945	38,033
Accrued vacation	26,094	20,872
Deferred revenue	3,570	4,795
Total liabilities	95,547	71,886
Net assets:		
Without donor restrictions	587,124	649,832
With donor restrictions	18,350	220,326
Total net assets	605,474	870,158
Total liabilities and net assets	\$ 701,021	\$ 942,044

See accompanying notes to the financial statements.

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Literacy Council of Northern Virginia, Inc.
Statement of Activities
For the Year Ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues:			
Contributed services and materials	\$ 564,811	\$ -	\$ 564,811
Contributions	498,552	13,740	512,292
Grant revenue	119,081	184,096	303,177
Workshop and student fees	58,686	-	58,686
Investment income, net	48,525	-	48,525
Other income	3,966	-	3,966
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>125,620</u>	<u>(125,620)</u>	<u>-</u>
Total revenues	<u>1,419,241</u>	<u>72,216</u>	<u>1,491,457</u>
Expenses:			
Program services	<u>1,501,170</u>	<u>-</u>	<u>1,501,170</u>
Support services:			
Management and general	249,722	-	249,722
Fundraising	<u>88,226</u>	<u>-</u>	<u>88,226</u>
Total support services	<u>337,948</u>	<u>-</u>	<u>337,948</u>
Total expenses	<u>1,839,118</u>	<u>-</u>	<u>1,839,118</u>
Change in net assets	(419,877)	72,216	(347,661)
Net assets, beginning of year	<u>1,069,709</u>	<u>148,110</u>	<u>1,217,819</u>
Net assets, end of year	<u>\$ 649,832</u>	<u>\$ 220,326</u>	<u>\$ 870,158</u>

See accompanying notes to the financial statements.

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Literacy Council of Northern Virginia, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program services	Management and general	Fundraising	Total support services	Total expenses
Depreciation and amortization	\$ 15,873	\$ 882	\$ 882	\$ 1,764	\$ 17,637
Dues and memberships	2,337	194	392	586	2,923
Employee benefits	61,286	14,408	5,741	20,149	81,435
Employee relations	1,349	2,109	199	2,308	3,657
In-kind supplies and equipment	5,590	-	-	-	5,590
In-kind volunteer tutoring and other services	478,221	-	-	-	478,221
Insurance	5,804	847	501	1,348	7,152
Other expenses	15,405	740	655	1,395	16,800
Payroll taxes	49,989	12,092	4,711	16,803	66,792
Postage and shipping	876	3,123	1,325	4,448	5,324
Printing and publications	4,085	3,158	1,041	4,199	8,284
Professional fees	75,739	23,946	7,510	31,456	107,195
Program books and supplies	44,953	-	-	-	44,953
Recruiting expense	35	30,446	-	30,446	30,481
Rent	78,563	4,050	4,050	8,100	86,663
Repairs and maintenance	4,104	228	228	456	4,560
Salaries	642,425	151,452	60,219	211,671	854,096
Student incentives	151	-	-	-	151
Supplies	5,177	912	339	1,251	6,428
Telephone	5,759	1,033	418	1,451	7,210
Travel	3,449	102	15	117	3,566
Total expenses	\$ 1,501,170	\$ 249,722	\$ 88,226	\$ 337,948	\$ 1,839,118

See accompanying notes to the financial statements.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
June 30, 2019 and 2018

1. Organization

The Literacy Council of Northern Virginia, Inc. (the Council) is an adult educational organization whose mission is to teach adults the basics of reading, writing, speaking and understanding English so they can access employment and education opportunities and more fully and equitably participate in their community. The Council teaches primarily foreign-born adults through classroom programs with the help of trained volunteers.

2. Summary of Significant Accounting Policies

a. Basis of presentation

The Council's financial statements are presented in accordance with generally accepted accounting principles for nonprofit organizations. Under those principles, the Council is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* represent resources that are not subject to donor imposed restrictions and are available for operations at management's discretion.
- *Net Assets With Donor Restrictions* represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Council or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statements of activities.

b. Basis of accounting

The Council's financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
June 30, 2019 and 2018

e. Income taxes

The Council is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on income derived from activities related to its exempt purpose. This code section enables the Council to accept donations that qualify as charitable contributions to the donor. The Council is subject to income taxes on taxable income from unrelated business activities. For the years ended June 30, 2019 and 2018, the Council did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

The Council is not aware of any activities that would jeopardize their tax-exempt status that would require recognition in the accompanying financial statements. Generally, tax returns are subject to examination by taxing authorities for up to three years from the date a completed return is filed. If there are material omissions of income, tax returns may be subject to examination for up to six years. It is the Council's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in the accompanying financial statements. As of June 30, 2019 and 2018, the Council had no uncertain tax positions which should be recognized as a liability.

f. Grants receivable

Grants receivable principally represent amounts due from government awards and are stated at their net realizable value. All grants receivable outstanding are considered collectible. Accordingly, no allowance for doubtful accounts has been recorded at June 30, 2019 and 2018.

g. Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. All contributions receivable are expected to be collected in less than one year and are reported at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2019 and 2018, all contributions receivable are considered collectible, therefore no allowance for doubtful accounts has been recognized.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
June 30, 2019 and 2018

I. Revenue recognition

i. Contributions

Contributions, and certain foundation and corporate grants, are recognized as revenue when received or promised and are recorded net of any current year allowance or discount activity. The Council reports gifts of cash and other assets as donor restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to the Council's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

ii. Grant revenue

Grant revenue is recognized as earned when the qualifying costs are incurred. Amounts received in advance are recorded as deferred revenue in the accompanying statements of financial position.

iii. Program service fees

Special fundraising event, workshop and student fees are recognized as revenue in the period the events take place. Fees received relating to future periods are recorded as deferred revenue in the accompanying statements of financial position.

iv. In-kind contributions

Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
June 30, 2019 and 2018

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a right-of-use asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for nonprofit entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Council plans to adopt the new ASUs at the respective required implementation dates.

3. Liquidity and Availability

The following represents the Council's financial assets at June 30:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash	\$ 63,075	\$ 76,423
Contributions and grants receivable	<u>58,160</u>	<u>210,061</u>
Total financial assets	<u>121,235</u>	<u>286,484</u>
Less amounts not available within one year:		
Net assets with donor restrictions	(25,625)	(220,326)
Less net assets with purpose restrictions to be met in less than a year	<u>-</u>	<u>196,196</u>
Total assets not available within one year	<u>(25,625)</u>	<u>(24,130)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 95,610</u>	<u>\$ 262,354</u>

The Council's goal is to maintain sufficient liquidity to support its on-going operations. For the year ended on June 30, 2019, the Council held approximately \$135,532 in liquid assets, or 19% of total cash and investable assets, on average each month. Liquid assets includes cash on deposit, money-market accounts, certificates of deposit, and other near-cash instruments. The Council invests cash in excess of operating needs prudently in liquid assets and/or other investable assets, depending on anticipated cash flow needs. The Council is actively managing its investment portfolio to reflect the Council's measurement and management of liquidity needs and resources.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
June 30, 2019 and 2018

The table below presents the Council's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Total
Money market funds	\$ 91,315	\$ -	\$ 91,315
Exchange traded funds-equity funds	55,084	-	55,084
Exchange traded funds-bond funds	91,451	-	91,451
Equities-common stock	279,689	-	279,689
Equities-preferred stock	27,504	-	27,504
Equities-real estate	-	-	-
Bonds-corporate	-	73,165	73,165
Bonds-government	-	-	-
Total investments	<u>\$ 545,043</u>	<u>\$ 73,165</u>	<u>\$ 618,208</u>

5. Property and Equipment, Net

The following is a summary of property and equipment held at June 30:

	2019	2018
Library	\$ 31,526	\$ 31,526
Office equipment	80,569	75,810
Website development	-	82,583
Furniture	<u>1,900</u>	<u>1,900</u>
Property and equipment	113,995	191,819
Accumulated depreciation and amortization	<u>(97,209)</u>	<u>(172,765)</u>
Total property and equipment, net	<u>\$ 16,786</u>	<u>\$ 19,054</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$11,827 and \$17,637, respectively.

Literacy Council of Northern Virginia, Inc.
Notes to the Financial Statements
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The Council receives 4,050 square feet of donated space from the county government in which to operate. The space was valued at \$20 per square foot for each year. The total value of the donated space was \$81,000 for each year and is included in contributed services and materials revenue and has been allocated on a functional basis in the accompanying statements of activities.

The Council receives donated equipment, supplies and other items which are recorded at fair value on the date of donation. The total value of the donated equipment, supplies and other items for the years ended June 30, 2019 and 2018 was \$8,453 and \$5,590, respectively, and is included in contributed services and materials revenue and has been allocated on a functional basis in the accompanying statements of activities.

8. Commitments

Operating leases

In June 2016, the Council entered into a 63 month lease agreement for a postage meter and scale. The lease requires a monthly rent payments of \$127 and will expire in September 2022. After the end of the lease, the Council has the option of purchasing the postage meter and scale at fair value. Rent expense for the years ended June 30, 2019 and 2018 was \$1,521 for each year.

The Council also entered into a 27 month lease agreement for office space beginning in July 2014 and ending in September 2016. The lease has been extended until November 2019. The lease requires a monthly payment of \$435, subject to a 3% escalation rate after December 2018. Office rent expense for the years ended June 30, 2019 and 2018 was \$3,939 and \$5,663, respectively.

Aggregate future minimum lease payments are as follows for the years ending June 30:

	<u>Equipment</u>	<u>Office</u>	<u>Total</u>
2020	\$ 1,521	\$ 2,687	\$ 4,208
2021	1,521	-	1,521
2022	<u>380</u>	<u>-</u>	<u>380</u>
Total	<u>\$ 3,422</u>	<u>\$ 2,687</u>	<u>\$ 6,109</u>